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Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	24719.22	-118.29	-0.48%	25.08
Dow Jones Transports	10612.29	-47.82	-0.45%	17.34
Dow Jones Utilities	723.37	-0.52	-0.07%	9.67
S&P 500	2673.61	-13.93	-0.52%	19.42
S&P 400 Midcap	1900.57	-10.71	-0.56%	14.45
S&P 600 Smallcap	936.26	-7.14	-0.76%	11.73
NASDAQ	6903.39	-46.77	-0.67%	28.24
Russell 2000 (Smallcaps)	1535.51	-13.41	-0.87%	13.14
BKX (Banking)	106.71	-0.92	-0.85%	16.25
BTK (Biotech)	4222.21	-50.19	-1.17%	37.31
XOI (Oil Index)	1335.55	-5.10	-0.38%	5.33
SOXX (Semiconductor)	1253.05	-13.25	-1.05%	38.23
XAU (Gold/Silver)	85.27	-0.18	-0.21%	8.13

"What Happened to the Santa Rally?"

Well, Santa has failed to call on Broad and Wall, so unless we get a sharp rally today and tomorrow, the bears will be quick to point out the aforementioned quote. Recall that the fabled Santa Rally takes place the week before Christmas and the first two sessions of the new year. The bears will also remind us that Santa didn't show in December 1999 or December 2007, and we all know what happened subsequently. While the statistical evidence shows that S&P 500 has averaged a 1.7% gain in Santa rally mode 78% of the time since 1928, we would remind investors that the equity markets can do anything. So while there may be some selling in the early part of January, we don't think any selling will gain much downside traction.

If that selling shows up this week, the bears will remind us of the January Barometer. To wit, "So goes the first week of the new year, so goes the month and so goes the year." Hereto, the statistical evidence is on the side of that old stock market saw, but again we remind investors that the equity markets can do anything. Take 2017, who was predicting a 25% gain for the senior index coming into the year; certainly not us. However, our models did flip strongly positive a week before the presidential election and only looked for some weakness near the end of January (2017) and again in August of last year.

As previously stated, we will be watching the December Low Indicator. As we wrote last week, it was explained to us by our friend and mentor Lucien Hooper:

"Forget all the noise you hear about the January Barometer; pay much more attention to the December low. That would be the lowest closing price for the Dow Jones during the month of December. If that low is violated during the first quarter of the New Year, watch out!"

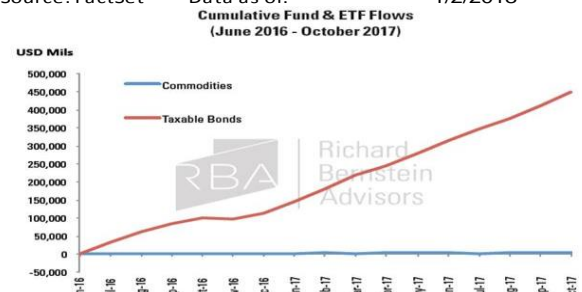
For the record, 2017's December closing low was 24180.64, recorded on 12/5/17.

(Continued on page 2)

"If Santa fails to call the bears will roam on Broad and Wall."
... An old stock market saw

Index	Cur Future	Change	
Dow Jones	24,768	33.00	
S&P 500	2,681	5.25	
NASDAQ	6,416	7.25	
Volume	ADV/DEC	Issues	
NYSE	1 Day Volume 708,148,487	0.47	0.69
NASDAQ	1,528,580,502	0.32	0.52
Foreign Markets	Intraday	Net	% Chg
U.K. FTSE 100	7,688	0.00	0.00%
Germany Germany DAX (TR)	12,819	-98.16	-0.76%
Brazil Bovespa In	76,402	0.00	0.00%
Japan Japan Nikkei 225	22,765	0.00	0.00%
Hong Kong Hang Seng Index	30,515	596.16	1.99%
S&P Sectors	Close	% Chg	1 mo %
S&P 500 / Consumer Discretic	785.33	-0.66%	2.90
S&P 500 / Consumer Staples -I	587.39	-0.04%	3.14
S&P 500 / Health Care -SEC	956.32	-0.73%	0.12
S&P 500 / Information Techno	1106.18	-0.61%	0.97
S&P 500 / Telecommunicatior	166.07	-0.91%	6.61
S&P 500 / Energy -SEC	533.41	-0.39%	6.51
S&P 500 / Financials -SEC	463.94	-0.70%	2.57
S&P 500 / Industrials -SEC	637.81	-0.29%	3.50
S&P 500 / Materials -SEC	378.94	-0.32%	2.52
S&P 500 / Utilities -SEC	267.37	0.00%	-5.80
S&P 500 / Real Estate -SEC	203.86	-0.10%	-0.38
Key Commodity Prices	Last	Net	
Crude Oil WTI (NYM \$/bbl) Con	60.410	0.02	
Natural Gas (NYM \$/mmbtu) C	2.959	0.01	
eMini Gasoline (NYM \$/gal) Cc	1.796	0.00	
Gold (NYM \$)	1312.200	2.80	
Silver (NYM \$/ozt) Continuous	17.110	-0.04	
United States Dollar Index	91.851	-0.28	
eMini Copper (NYM \$/lbs) Con	3.282	-0.02	
Cotton #2 (IFUS \$/lbs) Continu	0.790	0.00	
Market Valuation	2016A	2017E	2018E
Consensus S&P 500 EPS	\$106	\$125	\$145
P/E	25.2	21.4	18.4
Earnings Yield		4.7%	5.4%
Equity Risk Premium (10 yr)		2.3%	3.0%
Treasury Yields	90D	10 Yr	30 Yr
	1.39	2.41	2.74

Source: FactSet Data as of: 1/2/2018



Source: Richard Bernstein Advisors LLC., Morningstar

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As for last week's action, well there wasn't much action except for Friday's 118-point Dow Dive. One thing we have observed over the past month or two is noticeable weakness in the U.S. Dollar Index with a concurrent pick-up in price for many commodities. We think that sequence may be setting the stage for a bullish change in trend for commodities. This would make sense because commodities are pretty much unloved and under-owned. That has left the Reuters/Jeffries CRB Index at its cheapest level relative to stocks in decades. The unloved and under-owned assumption is also reflected as follows:

Nearly a half-trillion dollars have flowed into bond funds and ETFs. However, only about 1/100th of that amount has flowed into commodity funds and ETFs during the period (see chart on page 1).

Obviously, Rich's portfolios reflect this strategy. As for Andrew and I, we have recommended tilting portfolios in a similar fashion using favorably rated midstream Master Limited Partnerships (MLPs) from our fundamental energy analysts' research universe. We think commodity-centric stocks will likely do well as we approach the Year of the Dog, which begins on February 16, 2018, where real estate, agriculture and environment sectors should be favored according to the Chinese New Year.

Today is the start of the New Year and the January Effect Rally, which is largely a small-cap event. The Russell 2000 has rallied on the first session of the year for six out of the past nine years. As we write at 5:37 a.m., the preopening S&P 500 futures are up about 3 points.

U.S. Markets Index Information: *U.S. Treasury securities* are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The *Dow Jones Industrial Average* is an unmanaged index of 30 widely held securities. The *Dow Jones Transportation Average* is the most widely recognized gauge of the American transportation sector. The *Dow Jones Utility Average* keeps track of the performance of 15 prominent utility companies. The *S&P 500* is an unmanaged index of 500 widely held stocks. The *S&P Mid Cap 400 Index* is a capitalization-weighted index that measures the performance of the mid-range sector of the U.S. stock market. The *S&P Small Cap 600 Index* is an unmanaged index of 600 small-cap stocks. The *NASDAQ Composite Index* is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The *Russell 2000 index* is an unmanaged index of small cap securities which generally involve greater risks. The *KBW Bank Sector (BKX)* is a capitalization-weighted index composed of 24 geographically diverse stocks representing national money center banks and leading regional institutions. The *NYSE Arca Biotechnology Index (BTK)* is an equal dollar weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services. The *NYSE Arca Oil Index (XOI)* is a price-weighted index of the leading companies involved in the exploration, production, and development of petroleum. The *PHLX Semiconductor Sector Index (SOXX)* measures the performance of U.S.-traded securities of companies engaged in the semiconductor business, which includes companies engaged in the design, distribution, manufacture, and sales of semiconductors. The *Philadelphia Gold and Silver Index (XAU)* is an index of 16 precious metal mining companies that is traded on the Philadelphia Stock Exchange.

Futures: Futures prices are current as of the publication of this report, but will fluctuate. Please contact your financial advisor for updated information.

Foreign Markets Information: The FTSE 100 Index is a share index of the stocks of the 100 companies with the highest market capitalization listed on the London Stock Exchange. The *DAX* (German stock index) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The *Bovespa* Index is a gross total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The *Nikkei 225* is a price-weighted index consisting of 225 prominent stocks on the Tokyo Stock Exchange. The *Hang Seng Index* is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Commodity Price Information: The *CRB Index* measures the overall direction of commodity sectors. The *US Dollar Index (USDIX)* is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies. Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising.

Market Valuation Information: The *McClellan Oscillator* is a market breadth indicator that is based on the difference between the number of advancing and declining issues on the NYSE. Technical Analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per share. The earnings yield is earnings per share divided by the current market price per share. The equity risk premium is the earnings yield minus the current rate on the 10-year U.S. Treasury note and is the excess return that the stock market provides over a risk-free rate.

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Exponential Moving Average (EMA) - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.

Relative Strength Index (RSI) - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

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